

A new brew: How EU regulation will reshape coffee landscape

In part two of this article, we look at the potential impact of the European Union regulation compelling farmers who are already compliant to prove their innocence or suffer the consequences.

BY ISMAIL MUSA LADU

The blanket regulation by European Union (EU) compelling farmers to prove that they did not contribute to deforestation before growing the produce has a massive potential to disenfranchise the entire coffee sector value chain with the smallholder farmers—who are the majority producers, bearing the heaviest brunt, Prosper Magazine has learnt.

In 2023, the EU passed the Regulation on Deforestation-free products (EUDR) which entered into force on June 29 2023, with full implementation beginning on the eve of 2025 – just months away.

Among the affected products by the regulation include Uganda's unique grown coffee, more than 60 percent of which is exported to the lucrative EU market.

Although this is a stark reminder of the need for market diversification, sector players reckon that transiting from one market to another is not like flipping a switch. As a result, many will have to comply with the EUDR even if they believe it is an inconvenience.

By the year 2050, EU is looking at being carbon neutral – meaning achieving a balance between emitting carbon and absorbing it from the atmosphere through covers such as forests.

To achieve this, many other countries across the continent, the majority of which are not responsible for the emissions responsible for climate change, have to play ball or pay the price in some form or shape.

For Uganda, the market access to the most lucrative market at the moment is at stake. Uganda can only save her neck from the chopping board by agreeing to work within the way suggested if not compelled by the EU.

Sector players realise the need to protect the environment but questioned the blanket application of the regulation.

"Although EUDR is trying to tackle the causes of deforestation that result from their consumption, I think this regulation should have targeted large-scale plantation farmers of palm oil, corn, and soya beans in Latin America.

"Unfortunately, this is a blanket requirement affecting even those who are not part of the problem and that is not fair," says Mr Tony Mugoya, a smallholder coffee farmer when contacted last week on Tuesday.

He continued: "In Africa, we do not do large-scale farming and Uganda in particular, most farmers are smallholders and are not involved in deforestation when growing coffee. We are compli-



Coffee beans ready for processing. The EU regulation requires evidence of no deforestation. PHOTO/ MICHAEL KAKUMIRIZI

ant, but the challenge is how this can be proven."

Like Mr Mugoya, most smallholder farmers Prosper Magazine spoke to, were concerned about the cost that comes with traceability, the technology involved and certification.

For coffee farmers like Ms Lorvis Kiggundu, who has since taken steps to improve her coffee yields, she remains clueless about how these developments will impact her after years of working hard to enhance coffee quality and production in central Uganda.

"As a result, so many smallholder farmers can easily be excluded from the value chain, and not as a result of compliance but because they have no means to prove that they are compliant," says farmer Mugoya who is also worried that, "This regulation can easily turn out to be a trade barrier for smallholder farmers."

This is because once enforcement begins, just before the eve of next year, the produce of smallholder farmers like Ms Kiggundu who are already compliant, will not be allowed to access EU markets due to certification challenges as a result of the EUDR.

According to Mr Mugoya who is also the head of Uganda Coffee Alliance, EUDR will pave the way to a two-tier market – one compliant with the EU requirement and the other targeting markets beyond the EU. As a result of the two-tier prices – one being expensive and the other one not, the sector should brace for what Mr he describes as "total chaos" with potential to affect production.

A peek at Uganda's case

According to UCDA – coffee sector prefect, the EU is the primary export market for Ugandan coffee.

"Europe remained the main destination for Uganda's coffees with a 72 percent import share, higher than 69 percent in June 2024," said Uganda Coffee

Development Authority (UCDA) in its monthly coffee report for July 2024.

Whereas this is important, the EU directives, specifically the Corporate Sustainability Due Diligence Directive (CS3D) and the EUDR, pose some challenges to domestic sector players.

However, there are some positives from this development. For example, according to a report titled: The EU Commission's Proposal for a directive on CS3D: Implications on Uganda's Coffee Sector authored by SEATINI Uganda, the CS3D directive could have several positive impacts on the coffee sector in Uganda.

"To comply with the sustainability and ethical standards required by the directive, this could encourage both large and small-scale coffee producers in Uganda to adopt more sustainable and ethical practices such as using organic fertilisers and implementing fair labour practices," reads the report in part.

Further, the directive could also improve supply chain transparency as it requires companies to identify, prevent, and mitigate the risks of human rights abuses and environmental harm in their supply chains, which could improve transparency and accountability throughout the supply chain.

The 2021 Coffee Act provides for the establishment of a national coffee register and coffee value chain actors. This gives UCDA the mandate to keep a National Coffee Register, including registration, updating, traceability "from cup to farm", with geo-coordinates and geo-polygons, and production following the laws of Uganda and international labour, human rights, and environmental laws.

So there is no option but to comply although coffee per se is not a driver of deforestation in Uganda. Non-compliant plots are below 10 percent, indicating that coffee is not threatened by these EU rules," the director develop-

ment services at UCDA, Mr Gerald Kyalo while speaking in a hybrid meeting under the theme: "Securing the Future of Africa's Coffee Trade," said.

In the meeting held in Kampala, convened amid the evolving dynamics of global coffee production trade, Mr Kyalo said: "This process will map farmers, traders, graders, processors, and exporters to sustain access to the European market.

He continued: "Registration is free for farmers because the government and donor organisations are picking up the bill."

However, the likelihood of increased administrative burden and costs for coffee producers and exporters in Uganda could increase. The directive requires companies to conduct due diligence to identify, prevent, and mitigate the risks of human rights abuses and environmental harm in their supply chains, which is an expensive process.

While over 80 percent of all coffee in Uganda is grown by smallholders with less than two acres per household they often operate as part of bigger company's value chains. Now the big companies who are top buyers of Ugandan coffee will require that the smallholder farmers who are part of their value chain conduct due diligence which can be cumbersome.

Additionally, small-scale coffee farmers in Uganda are likely to lack the resources and expertise to comply with these requirements at a time when the sector Authority couldn't get proper funding from the government to facilitate the exercise, is an indication that could lead to their exclusion from the EU market.

The report also reveals incoherence with trade agreements and Bilateral Investment Treaties (BITs). For example, trade agreements like the Economic Partnership Agreement (EPA) make it difficult for Uganda to impose taxes on green coffee exports by advocating against the imposition of export taxes. This creates a situation where Uganda remains a perpetual supplier of green coffee beans, leading to limited retention of economic value from coffee.

Furthermore, Investment Agreements continue to exclude obliga-

tions on performance requirements which are critical to promoting transfer of technology, environmental and labour rights protection.

Through threatening host states with Investor States Disputes Settlement (ISDS), investors have often reduced the power of the state to regulate investments in the interest of communities and the environment. Therefore, separating the CS3D directive from other critical policies and agreements that are in direct conflict with it leads to incoherence and a likelihood of this policy not supporting Uganda's compliance with the directive.

While it is assumed that compliance with the CS3D Directive will lead to increased income for farmers in coffee sectors this is not likely given the rigged rules in the coffee supply chain. It is important to note that the Directive does not address means of improving the coffee value chain in coffee-producing countries which is a right to development.

The other worry in the report is the risk of displacement of small-scale coffee producers. Due diligence obligations in the agriculture sector will apply to all companies with more than 250 employees and an annual net turnover of more than 40 million euros. This threshold excludes SMEs, except those that operate in a bigger company's value chain.

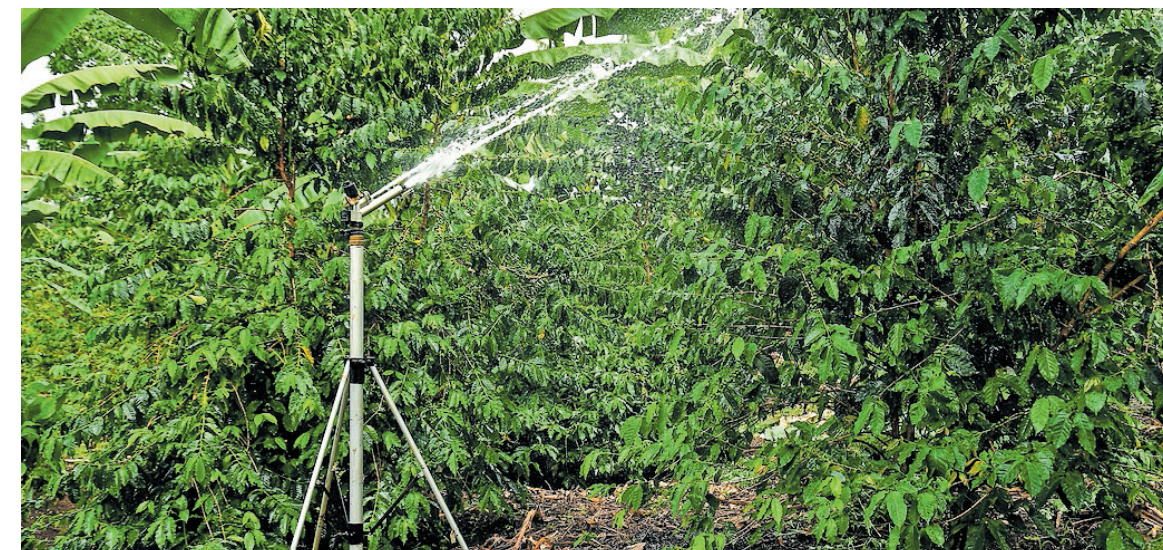
However, while it is unintended, the CS3D could result in unintended consequences, such as the displacement of small-scale coffee producers and the emergence of large-scale agribusinesses that are better equipped to comply with the directive.

This could lead to further concentration in the coffee industry, reducing competition and innovation and potentially harming the environment and local communities.

In the FY 2024/25 National Budget, the government allocated Shs13.9 billion to the UCDA to commence the mapping of coffee farms, which is a precursor for a traceability system. The total Budget required by UCDA for traceability is in the range of Shs35.6 billion – which is not available currently.

However, the deadline for Uganda to meet EU traceability requirements and therefore deemed compliant is December, 31st, 2024 which Ms Jane Nalunga, an expert on trade and investment, says: "Is a limited time to have concluded the mapping exercise."

Key concern. Although EUDR is trying to tackle the causes of deforestation that result from their consumption, I think this regulation should have targeted large-scale plantation farmers of palm oil, corn, and soya beans in Latin America... Unfortunately, this is a blanket requirement affecting even those who are not part of the problem and that is not fair," Mr Tony Mugoya, a smallholder coffee farmer, says.



A sprinkler being used to irrigate a coffee plantation in Bunyangabu District in western Uganda. PHOTO/MICHAEL KAKUMIRIZI

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